[Goodbye Regulations, Hello Impending Global Financial Crisis]

Prof.dr. Gerald Epstein

Ten years after the last financial crisis, Republicans — with backing from many Democrats — have made sure that Wall Street can return to its old ways of doing business by repealing the Dodd-Frank Act, which acted up to now as a very mild regulatory regime to rein in the predatory nature of financial capital. The decision to repeal Dodd-Frank was justified on the grounds that it put a break on economic growth. Gerald Epstein, professor of economics and co-director of the Political Economy Research Institute at the University of Massachusetts at Amherst, argues that this is not true at all. In this exclusive Truthout interview, Epstein notes that it is now very likely that the "toxic, speculative activities" of the Wall Street crowd will return with a menace, thereby preparing the groundwork for the next global financial crisis.

C.J. Polychroniou: Following the financial crisis of 2008, a bill was passed in 2010 under the Obama administration that sought to contain risks in the US financial system. The bill, which was sponsored by US Sen. Christopher Dodd and US Rep. Barney Frank, was rather weak as a regulatory regime. Nonetheless, it was severely criticized by conservatives. Donald Trump delivered a mixed message in running for president, railing against the big banks and Hillary Clinton's connections to Wall Street, while at the same time promising more deregulation. Now, Congress has passed and President Trump has signed into law a comprehensive financial deregulation law, "The Economic Growth, Regulatory Relief, and Consumer Protection Act." In addition, Trump-appointed financial *regulatory agencies such as the Securities and Exchange Commission (SEC) have implemented policies to loosen regulations further on a variety of financial institutions and activities. The backers of rolling back Dodd-Frank have claimed that financial deregulation will increase economic growth and provide more credit to households and business. First, what were the weaknesses of the Dodd-Frank Act, and did it actually contribute to anemic economic growth, as its Republican critics like Paul Ryan and others are arguing?*

Gerald Epstein: The main weakness of the Dodd-Frank Act is that it did not break up the "too big to fail" financial institutions. As a result, these large financial institutions retained the power to blackmail the public to bail them out the next time there is a financial meltdown and, as we have seen since Trump was elected, to buy off enough politicians to roll back the weak financial regulations that were passed. More generally, Dodd-Frank had way too many loopholes that resulted from financial sector lobbying so that it could never be implemented in its strongest form.

No, Dodd-Frank did not contribute to anemic growth. There is no evidence of this. Anemic growth was largely due to the legacy of the financial crisis itself, in which a great deal of household wealth was decimated, and to the continuing austerity policies that the Republicans were able to force on a weak-kneed and Wall Street-bedazzled Obama administration. On top of these factors are the long-term structural problems of the US economy related to the high level of inequality — itself largely due to the oversized power of Wall Street — and to the widespread disinvestment of US multinational corporations from the US economy, among other factors. If anything, Dodd-Frank worked against some of these tendencies, and thereby helped to sustain the long economic recovery that the Trump administration is now benefiting politically from.

The "Economic Growth, Regulatory Relief, and Consumer Protection Act" will allegedly be good for consumers and small businesses. Is there any truth to this claim?

No. Not really. But before answering in detail, it is important to realize that this Act was one of the only bipartisan bills that have been passed since Trump came into power. So, this is not entirely a Republican or a Trump initiative. A number of Democrats supported this bill, both in the House and in the Senate. And the same was true of the broadside that Wall Street leveled against tighter regulations in the fight over Dodd-Frank in 2009-2010. The reach of Wall Street goes far beyond the Republicans. According to official data from the Americans for Financial Reform, Wall Street pumped almost $2 billion into the 2016 elections, and in 2017-2018, has already spent $719 million on lobbying and campaign contributions. Democrats get 40 percent of this money. At this level of spending, that is certainly not "spare change."

There have been a number of excellent analyses of the impact of the "The Economic Growth, Regulatory Relief, and Consumer Protection Act" by the Americans for Financial Reform, Demos, Better Markets and other organizations. These analyses show that the most likely effects of the law will be to allow financial institutions to more easily once again engage in "predatory lending" of the type that pushed excessively large and costly mortgages onto those who didn't want them and couldn't afford them; to more easily engage in redlining that discriminates against people of color in providing financial services; to more easily hoodwink investors by selling them risky financial investments; and to reduce the capital cushions on financial institutions so that it would make it more likely that these institutions would have to go hat-in-hand to the Federal Reserve and Treasury (i.e., the taxpayers) to get bailed out next time there is a financial crisis.

More generally, should it happen, what will be the most likely consequences of the repeal of the Dodd-Frank Act for the US economy?

We are more likely to see souped-up versions of the toxic, speculative activities that led to the great financial crisis; we are more likely to see the return to the short-term-oriented investment focus that has characterized US corporations who find it much more lucrative to engage in "get rich quick" financial returns, rather than longer term investments in the productive economy; we are likely to see the acceleration of corporate raiding of pension funds and other forms of workers' savings to line the pockets of financiers; and we are likely to see further finance-directed undermining of workers' standard of living, as pointed out by the excellent work of economists William Lazonick and Eileen Appelbaum and Rosemary Batt,who have researched the ways that speculative financial activities are undermining the long-term health of the American economy.

Economic models have not been good at predicting financial and economic crises, yet the prevailing sentiment among many progressive economists is that the next *financial crisis is just a matter of time. Do you share this view?*

As the late, well-known economist Charles Kindleberger showed in his definitive history, "Manias, Panics and Crashes," financial crises are a "hardy perennial." He estimated they occur somewhere in the world about every seven years. So, as long as we have capitalism, we are going to have financial crises. The issue is how often and how severe and who will pay the price. If the financial industry and its allies in business and government continue to reap enormous short-term profits by shifting the risks to workers and communities, as they will be able to do more easily with the gutting of Dodd-Frank, then the chances of another major crisis go up considerably. And who knows how it will end this time around. With the venality and incompetence of the Trump administration, it is especially difficult to predict.

Given the predatory nature of neoliberal capitalism, what would an ideal regulatory financial regime look like?

The main principle is that the financial sector should serve society rather than the other way around. This usually means that we not only need strict financial regulation, but also a significant segment of public and non-profit financial institutions that are designed to serve society. I call this "finance without financiers." In order to make this, these institutions need to be large enough and/or a significant enough part of the economy to thrive and make an impact on the financial markets. This requires the financial authorities — especially the Federal Reserve — to support these institutions just as they have supported the massive private financial firms. This includes offering subsidized short-term credits and a safety net for them. Other important components include limiting the incomes private financiers make so that the socially–oriented financial staff are less tempted to act more like private, speculative bankers. Other regulations need to be in place but this will give an idea of what is required.

In the end, as long as we have a system of neoliberal capitalism, it will be difficult, politically and economically, to implement such a progressive and effective financial regime. But the struggle for a more equitable and sustainable economy must include financial programs like these.

C.J. Polychroniou is a political economist/political scientist who has taught and worked in universities and research centers in Europe and the United States. His main research interests are in European economic integration, globalization, the political economy of the United States and the deconstruction of neoliberalism's politico-economic project. He is a regular contributor to Truthout as well as a member of Truthout's Public Intellectual Project. He has published several books and his articles have appeared in a variety of journals, magazines, newspapers and popular news websites. Many of his publications have been translated into several foreign languages, including Croatian, French, Greek, Italian, Portuguese, Spanish and Turkish. He is the author of *Optimism Over Despair: Noam Chomsky On Capitalism, Empire, and Social Change*, an anthology of interviews with Chomsky originally published at Truthout and collected by Haymarket Books.